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SUBJECT: ARGENTINA ECONOMIC AND FINANCIAL REVIEW, OCTOBER 30-NOVEMBER 5, 2009

¶1. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period October 30-November 5, 2009. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econ OMS Megan Walton at WaltonM@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

DEPUTIES APPROVE THE SUSPENSION OF THE "BOLT LAW"

¶2. (SBU) On November 4, the Chamber of Deputies approved a bill to suspend the so-called "Bolt Law" (Ley Cerrojo), approved in 2005 as part of the original debt restructuring. The bill passed handily, with widespread support from the Frente para La Victoria party, the radical party (UCR), the PRO, and the Union Peronista. 165 Deputies supported, 28 opposed, and five abstained. The bill has moved to the Senate, where approval is expected within the next two weeks. [Background: The law prevents the GoA from making additional offers to holdouts who did not participate in the 2005 debt restructuring without prior authorization from the Congress. For additional background, see October 29 Argentina Economic and Financial Report.]

WEAK OCTOBER TAX COLLECTION UP ONLY 8.8% Y-O-Y

¶3. (SBU) The GoA announced November 3 that October tax collection increased a disappointing 8.8% y-o-y to ARP 26.4 billion, in line with the BCRA consensus survey estimate of ARP 26.5 billion. This was the second lowest increase this year. Considered in real terms, with annual inflation of 15-17% according to most private analysts, the result appears even worse. Furthermore when excluding social security administration revenues, which have jumped 52% y-o-y due to the nationalization of pension funds in October 2008, tax collection would have declined 0.7% y-o-y. In a press release, the Secretary of the Treasury Juan Carlos Pezoa and the Director of AFIP (equivalent to the IRS) Ricardo Echegaray praised the result as better than expected, explaining that strong domestic consumption and the positive effect of the measures enacted by the GoA to counter the impact of the international financial crisis have generated higher-than-expected tax revenues. The main drivers of the October collections were social security administration revenues, VAT, and fuel taxes. Income tax and Financial Transaction Tax revenues have decelerated strongly (up only 5% and 1% y-o-y, respectively), while export tax revenues dropped 21% y-o-y due mainly to the fall of international commodity prices as well as a reduction in export volume. In addition, import duties fall 13% y-o-y. Year-to-date, total GoA tax collection increased 12% y-o-y

to ARP 251 billion.

CONGRESS APPROVES "TECHNOLOGY TAX"

¶4. (SBU) The Argentine Congress passed a law on November 4, establishing value-added tax rates up to 21% on cell phones, televisions, digital cameras and other electronic items not produced in the southern Tierra del Fuego foreign trade zone. Laptops and certain types of air-conditioners were excluded from the text of the bill. The Lower House, on November 4, approved several changes made by the Senate to the original legislation, passing it with 126 supporting, seven opposing, and 54 abstaining. According to the government, the bill aims to increase government revenue through higher tax collection, and encourage investment in Tierra del Fuego to promote local manufacturing and job growth. Additionally, the law taxes electronic products with a new "internal tax" of between 20.5% and 26%, which, according to Presidential decree number 252/2009, will be reduced by two-thirds for electronics produced in Tierra del Fuego.

¶5. (SBU) According to the El Cronista financial daily, Minister of Production Debora Giorgi said that "importers (of electronics) are reaping extraordinary profits. They purchase goods from places like southeastern parts of Asia and Manaus (Brazil) that have different tax schemes." Argentine IT industry executives and analysts have noted, however, that the tax increase will reduce technology use and create an insurmountable handicap for multinationals and IT firms based outside of Tierra del Fuego. Dow Jones reported that opposition leader Francisco de Narvaez said to the press that "(this law) will increase the digital divide for millions of Argentines,"

and "it will strongly benefit the assembly industry in Tierra del Fuego, to the detriment of industries in provinces like Cordoba, Buenos Aires, San Luis, and Santa Fe." The Chamber of Information Technology and Communication, representing multinational telecom firms in Argentina, estimates that the higher taxes could boost prices for products like computer monitors and cell phones by as much as 34%, which could reduce sales and result in much lower value-added tax revenue from this sector. Argentina's San Andres University analyzed the sector, and found that Argentine-based manufacturers as a whole account for only about $300 million of Argentina's approximately $4 billion market in telecommunications and computer goods, indicating that a policy measure to promote local production will affect all, but benefit only a few.

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THE GOA ANNOUNCES MONTHLY CHILD SUBSIDY OF ARP 180
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¶6. (SBU) President Cristina Fernandez announced October 29 the creation of a new child benefit. The plan, implemented by Presidential decree, targets every Argentine child under 18 years old whose parents are unemployed, work "informally," or receive less than the minimum wage of ARP 1,500 per month. It will pay a monthly benefit of ARP 180 to parents for every child, up to five children. In a move to improve health and education, the GoA plan conditions these payments on the submission of certain academic and healthcare certificates. The President explained that this program will cost the social security system about ARP 10 billion a year, which will be financed by the social security system. The sources of financing are not clear.

BCRA PRESIDENT CALLS FOR G-20 COORDINATION

¶7. (SBU) Ahead of his trip to Scotland for the gathering of G-20 Finance Chiefs, Argentine Central Bank President Martin Redrado stated November 4 that G-20 members should coordinate their responses to the potentially adverse consequences of a widespread reversal in stimulus policies, once the global economy rebounds. He also recommended that the G-20 agree on how to deal with the consequences of a potential tightening in monetary policies by

developed countries. He expressed concern that a rapid reversal of low interest rates policies could lead to financial outflows from emerging markets, including Argentina.

WAGES KEEP INCREASING

¶8. (SBU) The National Bureau of Statistics (INDEC) announced November 2 that the wage index increased 1.77% m-o-m in September, above expectations of 1.40%, as measured by the BCRA survey. September's increase is the second highest of the year, after July's increase of 2.21%. This index defines wages as a price, without considering hours worked or special payments for productivity gains. It surveys the private and public sectors, where salaries rose 1.47% and 1.19%, respectively. The cumulative increase of the index in the first nine months of the year was 13%. The BCRA consensus survey forecasts an overall 15% increase in the wage index for 2009, and 13% for 2010.

OCTOBER LABOR DEMAND INDEX DOWN 1.3% M-O-M

¶9. (SBU) The October labor demand index calculated by Di Tella University decreased 1.3% m-o-m to 49 points, far below the 110 level it reached in February 2008. The index is currently close to its level of 57 at the end of 2002, during Argentina's deep economic contraction. The historic average for the index is 85. The decrease is largely due to a fall in the demand for professionals and technical personnel (down 22% and 20%, respectively), followed by a fall in the demand for services (down 11%), as well as for administrative and commercial personnel (down 4% and 3%, respectively). The index has decreased a cumulative 29% so far this year. According to Di Tella University, the outlook for the last two months of 2009 continues to be negative. The expectation is that there will not be an increase in demand for labor, and that unemployment will increase. As of the end of the second quarter of 2009, INDEC reported an unemployment rate 8.8% - significantly below the estimates of various private analysts. [The Di Tella index is based on comparisons of job vacancy announcements printed in the two largest newspapers of the country.]

MARTINEZ